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### **UNIDO activities related to the Vienna Ministerial Declaration and Plan of Action of the Least Developed Countries and to cooperation with middle-income countries**

## **UNIDO activities in cooperation with middle-income countries**

### **Report by the Director General**

This document presents the activities undertaken by UNIDO in relation to middle-income countries (MICs). It outlines the scope and prospects for programmatic cooperation between UNIDO and the MICs and reports on the High-Level Conference of Middle-Income Countries, hosted in San José from 12 to 14 June 2013, by the Government of Costa Rica and facilitated by UNIDO.

## **I. Scope and prospects for programmatic cooperation between UNIDO and the middle-income countries**

### **A. Background**

1. According to current World Bank classifications, MICs are defined as countries with a 2012 gross national income (GNI) per capita between \$1,036 and \$12,615.<sup>1</sup> While MICs are a very heterogeneous group, with geographic, demographic, economic, political and social differences, they are also faced with

<sup>1</sup> <http://data.worldbank.org/about/country-classifications>.

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shared development challenges. Many MICs are falling behind in achieving the Millennium Development Goals (MDGs) and symptoms of the middle-income trap (MIT) can be observed in most MICs from all geographical regions. These include stagnant growth; failure to compete with low-income, low-wage economies in manufacturing exports, and with advanced economies in high-tech manufacturing; low levels of economic and social inclusion; income inequality; and institutional and behavioural barriers causing slow structural transformation. In the context of sub-Saharan countries in Africa, MICs are mostly commodity-based export-led countries with little technology orientation in their productive system.

2. Current United Nations reports identify 107 MICs, which are home to 71 per cent of the world population and 75 per cent of the world's poor. Despite this scenario, MICs' contribution to the world economy has grown to 43 per cent of world gross domestic product (GDP) in purchasing power parity (PPP) terms.<sup>2</sup>

3. At the same time, in international cooperation, many MICs are emerging as donors, formulating their own development cooperation frameworks and self-funding development modalities, and promoting South-South and triangular cooperation initiatives. Furthermore, four of them — Brazil, India, China and South Africa, together with the Russian Federation, constitute the BRICS group, one of the most dynamic groups of countries in terms of economic development, as measured by GDP growth rates, market potential and employment generation. The share of the BRICS countries as a percentage of global GDP increased from 16.4 per cent in 2000 to 26.5 per cent in 2012. During the fifth BRICS summit in Durban (from 26 to 27 March 2013), these countries reiterated their readiness to increase their engagement and cooperation with other emerging markets and developing countries. They also reiterated their commitment to support sustainable infrastructure development in Africa with the understanding that some least developed countries (LDCs) cannot achieve the MDGs on their own. The BRICS also repeated their intention to support broader efforts aimed at ensuring sustainable and balanced growth and job creation around the world.

4. For the United Nations system in general, MICs are the largest constituent group of the United Nations development portfolio. Therefore, the United Nations and its specialized agencies will need to re-examine their engagement with MICs and to consider new strategies, policies, and mechanisms of cooperation.

5. Any strategy on poverty reduction at a global level must support poverty reduction in MICs at the national or subnational level, since most poor people live in MICs.

6. At the regional level, one of the best ways to support poverty reduction in neighbouring LDCs is to ensure the continued prosperity and stability of MICs. MICs offer stable trading opportunities and provide positive spillover effects for the countries close to them, including debt relief, technical assistance and cooperation to support infrastructure investment, trade finance, institution building, public administration reform and humanitarian assistance. Due to well-developed trade relations and remittances, MICs played a decisive role in supporting the poorest countries through the latest financial crisis.

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<sup>2</sup> General Assembly, Report of the United Nations Secretary-General. "Development cooperation with middle-income countries" (A/66/220).

7. In addition to poverty reduction, continued support within the context of the post-2015 agenda for pursuing inclusive and sustainable development, reducing energy and material resource intensity, and shifting to low-carbon consumption and production patterns in MICs will consolidate the social and economic progress already achieved and reduce the risk of reversing this progress. It will further ensure that the international development cooperation system provides consistent incentives and rewards to encourage knowledge transfer. For example, by engaging with MICs to gain knowledge which can be useful for development assistance to LDCs and to help MICs serve as poles of development at the regional level. Hence, MICs need to build their productive capabilities and diversify their economic base.

8. The overall challenge for the international community is to develop policies that address MICs' needs and potentials from these different perspectives. For UNIDO, the increasing number of emerging economies and MICs in global governance is an opportunity to strengthen its legitimacy and relevance. MICs are becoming more coordinated and are shaping regional and global development processes through their growing role in development cooperation. These parameters provide opportunities for broadening and sharing knowledge between MICs and LDCs in developing human capital.

9. Currently, 97 of UNIDO's 172 Member States are MICs. UNIDO will continue to work closely with these countries to:

(a) Further enhance their role and interests in the nexus of global sustainability and economic policy;

(b) Further strengthen their engagement in the processes related to the formulation of the post-2015 development framework and the sustainable development goals (SDGs);

(c) Facilitate liaison with related intergovernmental mechanisms;

(d) Allow for MIC-specific inputs to various related processes through advocacy directed at key decision-makers.

10. Reflecting the significant differences in the development needs and challenges of MICs and LDCs, differentiated responses for these two groups of countries will also have to be adopted in the provision of development cooperation services. Tackling inequality and exclusion in MICs is difficult and should be pursued in accordance with national priorities and in close cooperation with the national authorities.

## **B. Scope for programmatic engagement by UNIDO in the MICs**

11. UNIDO has comparative advantages in a number of areas, including several in which existing mechanisms of UNIDO engagement with the MICs are already well-developed and could be extended further:

(a) The "green growth" model aimed at stimulating investment in new innovative industries and technologies to alter production and consumption patterns;

(b) Knowledge sharing platforms, such as UNIDO's Green Industry Platform and the Industrial Knowledge Bank. These have the potential to advance sustainable

development through multi-stakeholder processes and to offer effective instruments for strengthening sustainable industrial development, particularly in MICs;

(c) New industrial policies that promote local innovation and technological learning, resource efficiency and competitive green industrial growth;

(d) South-South and triangular cooperation — including interregional cooperation to achieve sustainable growth and partnerships to promote technology and innovation, SME development and upgrading micro enterprises;

(e) Deepening partnerships with the private sector (including chambers and industry associations) for the promotion and provision of public goods (such as new knowledge, new technologies, free trade regimes and environmental protection);

(f) Mobilization of political commitment through holistic and coherent framework programmes of cooperation with MICs and their institutions;

(g) Leveraging multilateral environmental funds (e.g. the Multilateral Fund for the Implementation of the Montreal Protocol and the Global Environment Facility);

(h) Leveraging financial instruments from regional institutions (e.g. the European Union partnership, development cooperation and European neighbourhood instruments, as well as the instrument for pre-accession assistance, and structural funds);

(i) Expanding self-funding modalities for technical cooperation projects with MICs;

(j) Strengthening partnerships with international and regional development banks;

(k) Creating programmatic synergies within the United Nations system and utilizing the Delivering as One United Nations and the United Nations Development Action Framework mechanisms to mobilize funding through the common budget;

(l) Establishing special funds for regional projects and networks for knowledge sharing, expertise and experience exchanges;

(m) Strengthening partnerships with regional economic associations to promote interregional trade in manufactures and broaden connectivity/networks and knowledge sharing for economic integration;

(n) Promoting programmes for capacity building and value addition for increased competitiveness and market access through compliance with international standards;

(o) Responding to youth unemployment in productive sectors; exploring business models that produce employment opportunities;

(p) Supporting the inclusion of MIC economies into global market through institutional capacity building and policy advice;

(q) Promoting entrepreneurship, fostering innovation of technological development and productive growth;

(r) Strengthening the industrial fabric by diversification of industry.

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## **II. Report of the High-level Conference of Middle-Income Countries, from 12 to 14 June 2013, San José**

### **A. Background**

12. The high-level conference of MICs was held from 12 to 14 June 2013, in San José, and brought together high-level representatives from over 70 countries. Participants included ministers, policymakers, experts, and private sector and civil society representatives. Hosted by the Government of Costa Rica and facilitated by UNIDO, the meeting was convened under the theme “Challenges for sustainable development and international cooperation in middle-income countries: The role of networks for prosperity.” Over the course of three days, the high-level delegates addressed, inter alia, the role of MICs in the post-2015 development agenda, inclusive growth and prosperity, knowledge networks, sustainability and industrial development, and financing for development. The meeting concluded with the adoption of the San José Declaration as contained in Board decision IDB.41/Dec.4.

13. Just before the expiry of the MDGs and with the discussions to shape the post-2015 development agenda gathering speed, the high-level conference of MICs took place at a critical point in time for the multilateral development system. Two-thirds of the world’s poor reside in MICs, which also have an increasingly significant environmental footprint. It was therefore argued that any tangible future development results will require an extensive strengthening of cooperation with and among this group of countries. Due to current global challenges, including food security and the ongoing financial and economic crises, there was furthermore a call to increase the number of multidisciplinary networks for cooperation. These should cover the multidimensional nature of development, volatile market conditions and inclusive growth and economic diversification to achieve prosperity for all.

14. Many MICs are hoping that these complexities and realities will be articulated in the post-2015 development agenda. Prior to the high-level conference, a number of preparatory meetings took place in 2013. Three regional preparatory meetings took place in May in Belarus, Jordan and Mexico. Three open dialogues on the conference took place in Vienna in February; New York in March, April and June; and Washington D.C. in May. A thematic dialogue on environmental sustainability and green industry, inclusive growth and prosperity, and financing for sustainable economic development took place on 8 May in Vienna. Informal consultations for the San José Declaration also took place in Vienna in April and May.

### **B. Report of the meeting**

15. During the meeting, the high-level participants underscored the significant contribution of MICs to global development, saying this has led to MICs becoming key stakeholders in international affairs. It was noted that the theme of the conference spoke to the profound changes occurring in the multilateral landscape, while underscoring the ever-increasing importance of knowledge creation and sharing in meeting the development needs of MICs. It was urged that the outcomes of the conference include the creation of more inclusive global and multi-stakeholder partnerships.

16. In particular, the President of the Economic and Social Council of the United Nations called for the post-2015 development agenda to clearly reflect the role of MICs in sustainable development. He also suggested that the post-2015 development agenda be globally inclusive and ensure that the results achieved are irreversible. In this context, the President of the United Nations General Assembly said that this was a pivotal moment for the international system to work towards a more democratized system of international cooperation and development. Subsequently, the Minister of Foreign Affairs of Costa Rica highlighted the importance of MICs in the global architecture and suggested that the post-2015 development agenda define a “new order” for future development cooperation. UNIDO efforts in strengthening South-South cooperation as a mechanism to provide mutual benefits was recognized. In this regard, the UNIDO Industrial Knowledge Bank Initiative for the Latin American and the Caribbean was mentioned.

### **III. Action required of the Conference**

17. The General Conference may wish to take note of the information contained in the present document.

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